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DEFENSE MANAGEMENT

**DOD Needs to Reexamine
Its Extensive Reliance on
Contractors and Continue
to Improve Management
and Oversight**

Statement of David M. Walker
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Why GAO Did This Study

The federal government, including the Department of Defense (DOD), is increasingly relying on contractors to carry out its missions. Governmentwide spending on contractor services has more than doubled in the last 10 years. DOD has used contractors extensively to support troops deployed abroad. The department recently estimated the number of contractors in Iraq and Afghanistan to be about 196,000. DOD also relies heavily on contractors for various aspects of weapon system logistics support.

While contractors, when properly used, can play an important role in helping agencies accomplish their missions, GAO has identified long-standing problems regarding the appropriate role and management of contractors, particularly at DOD. This testimony highlights the challenges federal agencies face related to the increased reliance on contractors and the specific challenges DOD has had in managing its increased reliance on contractors who support deployed troops and who provide logistics support for weapons systems.

This testimony also highlights some of the recommendations GAO has made over the past several years to improve DOD's management and oversight of contractors, as well as DOD's actions in response to those recommendations.

To view the full product, including the scope and methodology, click on [GAO-08-572T](#). For more information, contact William M. Solis at (202) 512-8365 or solisw@gao.gov.

March 11, 2008

DEFENSE MANAGEMENT

DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight

What GAO Found

While there are benefits to using contractors to perform services for the government—such as increased flexibility in fulfilling immediate needs—GAO and others have raised concerns about the increasing reliance on contractors to perform agency missions. GAO's body of work shows that agencies face challenges with increased reliance on contractors to perform core agency missions, and these challenges are accentuated in contingency operations such as Iraq, in emergency situations such as Hurricane Katrina, or in cases where sufficient government personnel are not available. In making the decision to use contractors, agencies have experienced challenges such as: determining which functions and activities should be contracted out and which should not to ensure institutional capacity; developing a total workforce strategy to address the extent of contractor use and the appropriate mix of contractor and government personnel; identifying and distinguishing the roles and responsibilities of contractors and civilian and military personnel; and ensuring appropriate oversight, including addressing risks, ethics concerns, and surveillance needs.

DOD's increased reliance on contractors to support forces deployed for military operations and to perform maintenance and other logistic support for weapon systems has highlighted challenges that DOD faces in managing this component of its total force. With regard to contractor support for deployed forces, DOD's primary challenges have been to provide effective management and oversight, including failure to follow planning guidance, an inadequate number of contract oversight personnel, failure to systematically capture and distribute lessons learned, and a lack of comprehensive training for military commanders and contract oversight personnel. These challenges have led to negative operational and monetary impacts at deployed locations. For example, several military commanders GAO met with in 2006 said their pre-deployment training did not provide them with sufficient information on the extent of contractor support that they would be relying on in Iraq and were therefore surprised by the substantial number of personnel they had to allocate to provide on-base escorts, convoy security, and other force protection support to contractors. Although DOD has taken some steps to address these issues, many of these issues remain a concern and additional actions are needed. With respect to weapon system support, the challenges have been to resolve questions about how much depot maintenance and other logistics work needs to be performed in-house and to what extent outsourcing for DOD logistics has been cost-effective. While DOD has a process for defining core maintenance capability, GAO has identified shortcomings with this process and found that core maintenance capability has not always been developed. Finally, although increased contractor reliance for maintenance and other logistics activities was justified by DOD based on the assumption that there would be significant cost savings, it is uncertain to what extent cost savings have occurred or will occur.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the increased reliance on contractors to conduct more and more of the business of the federal government. In fiscal year 2007, the federal government spent about \$254 billion on contractor services, an amount that has more than doubled over the past decade. The Department of Defense's (DOD) obligations on service contracts, expressed in constant fiscal year 2006 dollars, rose from \$85.1 billion in fiscal year 1996 to more than \$151 billion in fiscal year 2006, a 78 percent increase. With this growth in spending, DOD has become increasingly reliant on contractors both overseas and in the United States. For example, the department has relied extensively on contractors for services that include communication services, interpreters who accompany military patrols, base operations support (e.g., food and housing), weapon systems maintenance, and intelligence analysis to support military operations in Southwest Asia. The U.S. military has long used contractors to provide supplies and services to deployed forces, but the scale of contractor support DOD relies on in deployed locations today has increased considerably. DOD has recently estimated the number of contractors in Iraq and Afghanistan to be about 196,000. Further, DOD currently has the equivalent of three brigades of contractors providing security services in Iraq, as well as another brigade equivalent supporting these contractors—a total of about 12,000 personnel. Put another way, there are more private security contractors in Iraq today than the total number of contractors (about 9,200) that were deployed to support military operations in the 1991 Gulf War. In addition to the support contractors provide for military forces deployed overseas, DOD has also increasingly relied on contractors for other services. For example, we have reported in recent years on DOD's increasing reliance on the private sector for various aspects of weapon system logistics support, including depot-level maintenance.

While contractors, along with military personnel and civilians, are part of DOD's total force and fulfill many vital functions that enable DOD to accomplish its missions, the increased reliance on contractors has raised a number of issues and concerns that warrant continued attention. Our previous work has highlighted long-standing problems regarding the appropriate role and management and oversight of contractors in the federal workforce—particularly at DOD—and I have identified 15 systemic acquisition challenges facing DOD (see app. I). These challenges range from separating agency wants from needs to creating a capable workforce and holding it accountable. Since 1992, we have designated DOD contract management as a high-risk area, in part due to concerns over the adequacy

of the department's acquisition workforce, including contract oversight personnel. Congress has expressed increasing concerns about DOD's management and oversight of contractors as well. For example, the National Defense Authorization Act for Fiscal Year 2008 called for the creation of a Commission on Wartime Contracting to make assessments of the government's reliance on contractors in Iraq and Afghanistan and certain contract performance and management issues related to those contracts. The act also created a contingency contractor training requirement for military personnel outside the acquisition workforce. Congress also has taken steps to improve oversight by increasing the budgets for the Defense Contract Audit Agency, Defense Contract Management Agency, and the Defense Department's Inspector General in the fiscal year 2008 DOD appropriations. As I have noted previously, given DOD's heavy and increasing reliance on contractors in Iraq and elsewhere, and the risks this reliance entails, it may be appropriate to ask if DOD has become too reliant on contractors to provide essential services.¹ To help frame this issue today, I will highlight governmentwide challenges we have identified related to the increased reliance on contractors. Next, I will focus more specifically on challenges DOD has had in managing the increased reliance on contractors who support deployed troops and who provide logistics support for weapons systems. I will conclude with some broad observations that Congress and DOD may wish to consider in addressing these important issues.

My statement today is based primarily on our prior work and the work of others at agencies across the federal government. Our work includes reviews at the Departments of Defense, Homeland Security, and Energy, the Environmental Protection Agency, and the National Aeronautics and Space Administration. The work of others includes the congressionally mandated Acquisition Advisory Panel and the Defense Acquisition University. A list of related GAO products is provided at the end of this statement. As part of ongoing work, we obtained updated information on DOD's actions to address issues we have previously raised. We developed this statement from February to March 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a

¹GAO, *Stabilizing and Rebuilding Iraq: Conditions in Iraq Are Conducive to Fraud, Waste, and Abuse*, GAO-07-525T (Washington, D.C.: Apr. 23, 2007).

reasonable basis for our findings and conclusions based on our audit objectives.

Summary

While there are benefits to using contractors to perform services for the government—such as increased flexibility in fulfilling immediate needs—GAO and others have raised concerns about the increasing reliance on contractors to perform agency missions. Our body of work shows that agencies face challenges with increased reliance on contractors to perform core agency missions, and these challenges are accentuated in contingency operations such as Iraq, in emergency situations such Hurricane Katrina, or in cases where sufficient government personnel are not available. In making the decision to use contractors, agencies have experienced challenges such as: determining which functions and activities should be contracted out and which should not to ensure institutional capacity; developing a total workforce strategy to address the extent of contractor use and the appropriate mix of contractor and government personnel; identifying and distinguishing the roles and responsibilities of contractors and civilian and military personnel; and ensuring appropriate oversight, including addressing risks, ethics concerns, and surveillance needs.

DOD's increased reliance on contractors to support forces deployed for military operations and to perform maintenance and other logistic support for weapon systems has highlighted challenges that DOD faces in managing this component of its total force. With regard to contractor support for deployed forces, DOD's primary challenges have been to provide effective management and oversight. These challenges include failure to follow planning guidance, an inadequate number of contract oversight personnel, failure to systematically capture and distribute lessons learned, and a lack of comprehensive training for military commanders and contract oversight personnel. These challenges have led to negative operational and monetary impacts at deployed locations. For example, several military commanders we met with in 2006 said their pre-deployment training did not provide them with sufficient information on the extent of contractor support that they would be relying on in Iraq and were therefore surprised by the substantial number of personnel they had to allocate to provide on-base escorts, convoy security, and other force protection support to contractors. Although DOD has taken some steps to address these issues, many of these issues remain a concern and additional actions are needed. For example, in response to our 2003 recommendation that DOD develop comprehensive guidance to help the services manage contractors supporting deployed forces, the department

issued the first comprehensive guidance dealing with contractors who support deployed forces in October 2005. However, as we recently testified, DOD's leadership needs to ensure implementation of and compliance with this guidance and other guidance.² With respect to weapon system support, the challenges have been to resolve questions about how much depot maintenance and other logistics work needs to be performed in-house and to what extent outsourcing for DOD logistics has been cost-effective. While DOD has a process for defining core maintenance capability, we have identified shortcomings with this process and found that core maintenance capability has not always been developed. Further, DOD does not have a process for defining core capability requirements for other logistics functions and activities, such as supply chain management and engineering. Finally, although increased contractor reliance for maintenance and other logistics activities was justified by DOD based on the assumption that there would be significant cost savings, it is uncertain to what extent cost savings have occurred or will occur.

Background

Acquisition of products and services from contractors consumes about a quarter of discretionary spending governmentwide, with services making up roughly 60 percent. These services range from basic functions, such as landscaping and janitorial, to those that are more complex, like intelligence analysis, acquisition support, security services, and program office support. The acquisition of services differs from that of products in several key respects and can be particularly challenging in terms of defining requirements and assessing contractor performance. DOD is by far the largest federal purchaser of service contracts—ranging from housing to intelligence to security.

Contractors can play an important part in helping agencies accomplish their missions. For example, agencies use service contracts to acquire special knowledge and skills not available in the government, obtain cost-effective services, or obtain temporary or intermittent services. The congressionally mandated Acquisition Advisory Panel³ has cited a number

²GAO, *Military Operations: Implementation of Existing Guidance and Other Actions Needed to Improve DOD's Oversight and Management of Contractors in Future Operations*, GAO-08-436T (Washington, D.C.: Jan. 24, 2008).

³The Panel was established by section 1423 of the Services Acquisition Reform Act of 2003, Pub. L. No 108-136, Title XIV. The Report of the Acquisition Advisory Panel to the Office of Federal Procurement Policy and the United States Congress was dated January 2007.

of developments that have led federal agencies to increase the use of contractors as service providers: limitations on the number of authorized full-time equivalent positions; unavailability of certain capabilities and expertise among federal employees; desire for operational flexibility; and the need for “surge” capacity. According to DOD and service officials, several factors have contributed to the department’s increased use of contractors for support services: (1) the increased requirements associated with the Global War on Terrorism and other contingencies; (2) policy to rely on the private sector for needed commercial services that are not inherently governmental in nature; and (3) DOD initiatives, such as competitive sourcing and utility privatization programs.

The Office of Management and Budget (OMB), procurement law, and the Federal Acquisition Regulation (FAR) provide guidance on contracting for services. OMB Circular A-76 details a process for federal agencies to obtain commercially available services currently performed by government employees from the private sector when it is cost-effective to do so.⁴ The Circular reinforces that government personnel shall perform inherently governmental activities. This process does not apply to private sector performance of a new requirement, expanded activity, or continued performance of a commercial activity. As such, this process effectively applies to a small percentage of the government’s contracting activity. Most of the growth in service contracting has occurred outside of the A-76 process. The Federal Activities Inventory Reform (FAIR) Act of 1998 further requires agencies annually to determine and list which government-provided agency activities are not inherently governmental functions.⁵ Federal procurement regulation states that functions that are so intimately related to the public interest are considered inherently governmental and should only be performed by government personnel. These functions include those activities which require either the exercise of discretion in applying government authority or the use of value judgment in making decisions for the government, and should not be performed by contractors.⁶ The FAR and OMB also require agencies to provide greater scrutiny and management oversight when contracting for services that closely support the performance of inherently governmental

⁴Office of Management and Budget Circular A-76 (Revised) (May 29, 2003).

⁵Pub. L. No. 105-270, §2(a) (1998). In 1999, OMB incorporated the FAIR Act requirements into the A-76 process.

⁶FAR §2.101.

functions.⁷ The closer contractor services come to supporting inherently governmental functions, the greater the risk of their influencing the government's control over and accountability for decisions that may be based, in part, on contractor work. This may result in decisions that are not in the best interest of the government, and may increase vulnerability to waste, fraud, and abuse.

Before I go into more detail on the issues surrounding the federal government's and DOD's reliance on contractors, I would like to touch on another subject of interest to the Subcommittee—DOD's application of enhanced use leases. DOD's longstanding leasing authority is codified at 10 U.S.C. 2667. The law provides general authority for the Secretary of a military department to enter into a lease upon such terms he considers will promote the national defense or be in the public interest. The Secretary of a military department is authorized to lease real property up to five years unless the Secretary determines that a lease for a longer period will promote the nation defense or be in the public interest. Over time, Congress has expanded DOD's leasing authority several times to provide a lessee the first right to buy the property and provide for payment in cash or in kind by the lessee of consideration in an amount not less than the fair market value. Most recently, the National Defense Authorization Act for Fiscal Year 2008 amended 10 U.S.C. 2667 in several ways; for example, the authority to accept facilities operation support as in-kind consideration was eliminated, and a requirement that leases meeting certain criteria be competitively awarded was added.⁸ The services have leased real property on their bases for years as a means to reduce infrastructure and base operating costs. For example, the military services have leased space for banks, credit unions, ATMs, storage, schools, and agricultural grazing. As you know, Mr. Chairman, we are conducting a review of DOD's land use planning activities, and will have more to say on this issue later.

⁷FAR §37.114; OFPP Policy Letter 93-1: Management Oversight of Services Contracting, Office of Federal Procurement Policy, May 18, 1994.

⁸National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181, § 2823 (2008).

Federal Agencies Have Faced Challenges with Increased Reliance on Contractors to Perform Agency Missions

While there are benefits to using contractors to perform services for the government—such as increased flexibility in fulfilling immediate needs—GAO and others have raised concerns about the increasing reliance on contractors to perform agency missions. Our work shows that agencies face challenges with increased reliance on contractors to perform core agency missions, especially in contingency or emergency situations or in cases where sufficient government personnel are not available. As I have previously stated, prior to making the decisions to use contractors, agency officials should focus greater attention on which functions and activities should be contracted out and which should not. To guide this approach, agencies need to consider developing a total workforce strategy to meet current and future human capital needs, and address the extent of contractor use and the appropriate mix of contractor and civilian and military personnel. I have also noted that identifying and distinguishing the responsibilities of contractors and civilian and military personnel are critical to ensure contractor roles are appropriate. Finally, once contractors are in place, agencies must ensure appropriate oversight of contractors, including addressing risks, ethics concerns, and surveillance needs.

Institutional Capacity: Agencies Face Challenges in Determining What Functions and Activities Can be Contracted Out and What Should be Provided by Government Personnel

In order to determine what functions and activities can be contracted out, the FAIR Act requires agencies annually to identify government-performed agency activities that are not inherently governmental functions. At GAO's 2006 forum on federal acquisition challenges and opportunities, some participants noted that it might be more appropriate for agencies to develop guiding principles or values to determine which positions could be contracted out and which should be performed in-house. Forum participants further noted that many corporate organizations carefully deliberate up-front and at the highest management levels about what core functions they need to retain and what non-core functions they should buy, and the skill sets needed to procure non-core functions.⁹

DOD's Panel on Contracting Integrity, in its 2007 report to Congress, noted that the practice of using contractors to support the government acquisition function merits further study because it gives rise to questions regarding the appropriate designation of government versus

⁹GAO, *Highlights of a GAO Forum: Federal Acquisition Challenges and Opportunities in the 21st Century*, GAO-07-45SP (Washington, D.C.: Oct. 6, 2006).

nongovernment functions.¹⁰ A November 2005 report by the Defense Acquisition University warned that the government must be careful when contracting for the acquisition support function to ensure that the government retains thorough control of policy and management decisions and that contracting for the acquisition support function does not inappropriately restrict agency management in its ability to develop and consider options.¹¹ Additionally, our prior work has found that when federal agencies, including DOD, believe they do not have the in-house capability to design, develop, and manage complex acquisitions, they sometimes turn to a systems integrator to carry out these functions, creating an inherent risk of relying too much on contractors to make program decisions. For example, the Army's Future Combat System program is managed by a lead systems integrator that assumes the responsibilities of developing requirements; selecting major system and subsystem contractors; and making trade-off decisions among costs, schedules, and capabilities. While this management approach has some advantages for DOD, we found that the extent of contractor responsibility makes DOD vulnerable to decisions being made by the contractor that are not in the government's best interests.¹²

In September 2007, we reported that an increasing reliance on contractors to perform services for core government activities challenges the capacity of federal officials to supervise and evaluate the performance of these activities. I recently noted that this may be a concern in the intelligence community.¹³ Specifically, while direction and control of intelligence and counter-intelligence operations are listed as inherently governmental functions, the Director of National Intelligence reported in 2006 that the intelligence community finds itself in competition with its contractors for employees and is left with no choice but to use contractors for work that

¹⁰The Panel was established by section 813 of the John Warner National Defense Authorization Act for Fiscal Year 2007, Pub. L. No. 109-364 (2006). Its 2007 Report to Congress was the first of three annual reports mandated by the act.

¹¹Defense Acquisition University, *Contracting Out Procurement Functions: An Analysis*, DAU Research Report 06-001 (Fort Belvoir, VA.: November 2005).

¹²GAO, *Defense Acquisitions: Role of Lead Systems Integrator on Future Combat Systems Program Poses Oversight Challenges*, GAO-07-380 (Washington, D.C.: June 6, 2007).

¹³GAO, *Intelligence Reform: GAO Can Assist the Congress and the Intelligence Community on Management Reform Initiatives*, GAO-08-413T (Washington, D.C.: Feb. 29, 2008).

may be “borderline inherently governmental.”¹⁴ We have also found problems with contractors having too much control at other federal agencies.¹⁵ Unless the federal government pays the needed attention to the types of functions and activities performed by contractors, agencies run the risk of losing accountability and control over mission-related decisions.

Workforce Planning: Agencies Face Challenges in Developing an Appropriate Mix of Contractor and Government Personnel to Meet Current and Future Needs

Along with determining the functions and activities to be contracted out, agencies face challenges in developing a total workforce strategy to address the extent of contractor use and the appropriate mix of contractor and civilian and military personnel. We have found that agencies need appropriate workforce planning strategies that include contractor as well as federal personnel and are linked to current and future human capital needs. These strategies should be linked to the knowledge, skills, and abilities needed by agencies and how the workforce will be deployed across the organization. Deployment includes the flexible use of the workforce, such as putting the right employees in the right roles according to their skills, and relying on staff drawn from various organizational components and functions using “just-in-time” or “virtual” teams to focus the right talent on specific tasks.¹⁶

As agencies develop their workforce strategies, they also need to consider the extent to which contractors should be used and the appropriate mix of contractor and federal personnel. Over the past several years, there has been increasing concern about the ability of agencies to ensure sufficient numbers of staff to perform some inherently governmental functions. The Department of Homeland Security’s human capital strategic plan notes the department has identified core mission-critical occupations and plans to reduce skill gaps in core and key competencies. However, it is unclear how this will be achieved and whether it will inform the department’s use of contractors for services that closely support inherently governmental

¹⁴The U.S. Intelligence Community’s Five Year Strategic Human Capital Plan.

¹⁵See for example, GAO, *Civil Servants and Contractor Employees: Who Should Do What for the Federal Government?* FPCD-81-43 (Washington, D.C.: June 19, 1981); GAO, *Energy Management: Using DOE Employees Can Reduce Costs for Some Support Services*, [GAO/RCED 91-186](#) (Washington, D.C.: Aug. 16, 1991); GAO, *Government Contractors: Are Service Contractors Performing Inherently Governmental Functions?* [GAO/GGD-92-11](#) (Washington, D.C.: Nov. 18, 1991).

¹⁶GAO, *Human Capital: A Self-Assessment Checklist for Agency Leaders*, [GAO/GGD-99-179](#) (Washington, D.C.: Sept. 1, 1999).

functions. The Department of Homeland Security has agreed with the need to establish strategic-level guidance for determining the appropriate mix of government and contractor employees to meet mission needs.¹⁷

Roles and Responsibilities: Agencies Face Challenges in Defining the Relationship between Contractors and Government Employees

Agencies are challenged to define the roles and responsibilities of contractors vis-à-vis government employees. Defining the relationship between contractors and government employees is particularly important when contracting for professional and management support services since contractors often work closely with government employees to provide these services. This definition begins during the acquisition planning process when contract requirements are determined. We have recommended that agencies define contract requirements to clearly describe roles, responsibilities, and limitations of selected contractor services. Well-defined contract requirements can also help minimize the risk of contractors performing inherently governmental functions. Yet contracts, especially service contracts, often do not have definitive or realistic requirements at the outset. Because the nature of contracted services can vary widely, from building maintenance to intelligence, a tailored approach should be used in defining requirements to help ensure that risks associated with a requirement are fully considered before entering into a contract arrangement.¹⁸ In our recent review of the Department of Homeland Security's service contracts, we found that some contracts included requirements that were broadly defined and lacked detail about activities that closely support inherently governmental functions. We found instances in which contractors provided services that were integral to the department's mission or comparable to work performed by government employees, such as a contractor directly supporting the department's efforts to hire federal employees, including signing offer letters.¹⁹

Our work on contractors in acquisition support functions has found that it is now commonplace for agencies to use contractors to perform activities historically performed by federal government contract specialists.

¹⁷GAO, *Department of Homeland Security: Improved Assessment and Oversight Needed to Manage Risk of Contracting for Selected Services*, GAO-07-990 (Washington, D.C.: Sept. 17, 2007).

¹⁸GAO, *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes*, GAO-07-20 (Washington, D.C.: Nov. 9, 2006).

¹⁹GAO-07-990.

Although these contractors are not authorized to obligate government funds, they provide acquisition support to contracting officers, the federal decision makers who have the authority to bind the government contractually. Contract specialists perform tasks that closely support inherently governmental functions, such as assisting in preparing statements of work; developing and managing acquisition plans; and preparing the documents the contracting officer signs, such as contracts, solicitations, and contract modifications. Therefore, it is important to clearly define the roles contractors play in supporting government personnel to ensure they do not perform inherently governmental functions.

Management and Oversight: Agencies Face Challenges in Assessing Risks, Minimizing Potential Ethics Concerns, and Ensuring Quality Surveillance

Our work has also identified a number of practices that are important to effectively managing and overseeing contractors once contractors are in place. These include assessing risks, minimizing potential ethics concerns, and ensuring quality through adequate surveillance. However, agencies face challenges in all these areas.

Risk is innate when contractors closely support inherently governmental functions. Federal procurement policy requires enhanced oversight of services that closely support the performance of inherently governmental functions to ensure that government decisions reflect the independent judgment of agency officials and that agency officials retain control over and remain accountable for policy decisions that may be based on contractor work products. However, our work has shown that agency officials do not always assess these risks to government decision making. For example, in 2007 we reported that while Department of Homeland Security program officials generally acknowledged that their professional and management support services contracts closely supported the performance of inherently governmental functions, they did not assess the risk that government decisions may be influenced by rather than independent from contractor judgments. Further, most of the program officials and contracting officers we spoke with were not aware of the requirement to provide enhanced oversight, and did not believe that their professional and management support services needed enhanced oversight.

Contractors are generally not subject to the same ethics rules as government employees even when they are co-located and work side-by-side with federal employees and perform similar functions. Federal ethics rules and standards have been put in place to help safeguard the integrity of the procurement process by mitigating the risk that employees

entrusted to act in the best interest of the government will use their positions to influence the outcomes of contract awards for future gain. In addition, as we reported in 2005, contractors we met with indicated that DOD did not monitor their recruiting, hiring, and placement practices for current and former government employees. Consequently, DOD could not be assured that potential conflicts of interest would be identified. A lack of awareness among government employees of procurement integrity rules and conflict-of-interest considerations creates additional risk. For example, in 2005 we reported that DOD did not know the content or frequency of ethics training and counseling or which employees received information on conflict-of-interest and procurement integrity. DOD also lacked knowledge on reported allegations of potential misconduct.²⁰ In 2007, the Acquisition Advisory Panel recommended training for contractors and government employees, and the development of standard conflicts of interest clauses to include in solicitations and contracts.

Quality assurance, especially regular surveillance and documentation of its results, is essential to determine whether goods or services provided by the contractor satisfy the contract requirements and to minimize risks that the government will pay the contractor more than the value of the goods and services. However, DOD officials have expressed concerns about the current state of the acquisition workforce to support surveillance and mentioned that surveillance remains an “other duty as assigned” and, consequently, is a low-priority task. We have also reported wide discrepancies in the rigor with which officials responsible for surveillance perform their duties, particularly in unstable environments. For example, in the aftermath of Hurricanes Katrina and Rita, the number of government personnel monitoring contracts was not always sufficient or adequately deployed to provide effective oversight.²¹ Unfortunately, attention to oversight has not always been evident in a number of instances, including during the Iraq reconstruction effort. We have reported that, particularly in the early phases of the Iraq reconstruction effort, several agencies including the Army lacked an adequate acquisition workforce in Iraq to oversee billions of dollars for which they were responsible. Further, Army personnel who were responsible for overseeing contractor performance of interrogation and other services were not adequately trained to properly

²⁰GAO, *Defense Ethics Program: Opportunities Exist to Strengthen Safeguards for Procurement Integrity*, GAO-05-341 (Washington, D.C.: Apr. 29, 2005).

²¹GAO, *Agency Management of Contractors Responding to Hurricane Katrina and Rita*, GAO-06-461R (Washington, D.C.: Mar. 16, 2006).

DOD Faces Challenges in Managing the Increased Role of Contractors Performing Support Functions for Military Operations and Weapons Systems

DOD has Experienced Long-Standing Problems with its Management and Oversight of Contractors Supporting Deployed Forces, But Has Taken Some Actions to Address these Problems

exercise their responsibilities. Contractor employees were stationed in various locations around Iraq, with no assigned representative on site to monitor their work. An Army investigative report concluded that the number and training of officials assigned to monitor contractor performance at Abu Ghraib prison was not sufficient and put the Army at risk of being unaware of possible misconduct by contractor personnel.²²

DOD's increasing use of contractors to perform mission-support functions, including contractors who support forces deployed for military operations and contractors who perform maintenance and other logistic support for weapon systems, has highlighted several challenges that DOD faces in managing the increased role of this component of its total force. With regard to contractor support to deployed forces, DOD's primary challenges have been to provide effective management and oversight. With respect to weapon system support, the challenges have been to resolve questions about how much depot maintenance and other logistic work needs to be performed in-house and about to what extent outsourcing for DOD logistics has been cost-effective.

Since 1997, we have reported on DOD's management and oversight challenges related to its use of contractor support to deployed forces. In December 2006, we issued a comprehensive review of DOD's management and oversight of contractor support to deployed forces.²³ We reported that despite making progress in some areas, DOD continued to face long-standing problems that hindered its management and oversight of contractors at deployed locations. Those problems included issues regarding visibility of contractors, numbers of contract oversight personnel, lessons learned, and training of military commanders and contract oversight personnel. More recently, we testified that DOD's leadership needs to ensure implementation of and compliance with guidance on the use of contractors to support deployed forces.

²²GAO, *Interagency Contracting: Problems with DOD's and Interior's Orders to Support Military Operations*, GAO-05-201 (Washington, D.C.: Apr. 25, 2005).

²³GAO, *Military Operations: High-Level DOD Action Needed to Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces*, GAO-07-145 (Washington, D.C.: Dec. 18, 2006).

While DOD has long relied on contractors to support forces deployed for military operations, the large influx of contractors in support of operations in Iraq has exacerbated problems that DOD has had in managing and overseeing their activities. Significantly, the individual services and a wide array of DOD and non-DOD agencies can award contracts to support deployed forces. For example, although DOD estimated that as of the first quarter of fiscal year 2008, 163,590 contractors were supporting deployed forces in Iraq, no one person or organization made a decision to send 163,590 contractors to Iraq. Rather, decisions to send contractors to support forces in Iraq were made by numerous DOD activities both within and outside of Iraq. This decentralized process, combined with the scope and scale of contract support to deployed forces, contributes to the complexity of the problems we have identified in our past work on this topic.

DOD has taken a number of actions to implement recommendations that we have made to improve its management of contractors. For example, in response to our 2003 recommendation that DOD develop comprehensive guidance to help the services manage contractors supporting deployed forces, the department issued the first comprehensive guidance dealing with contractors who support deployed forces in October 2005.

Additionally, in October 2006, DOD established the office of the Assistant Deputy Under Secretary of Defense for Program Support to serve as the office with primary responsibility for contractor support issues. This office has led the effort to develop and implement a database which, when fully implemented, will allow by-name accountability of contractors who deploy with the force. This database implements recommendations we made in 2003 and 2006 to enhance the department's visibility over contractors in locations such as Iraq and Afghanistan. Although DOD has taken these and other steps to address these issues, we recently testified that many of these issues remain a concern and additional actions are needed.²⁴

DOD Has Not Followed Long-Standing Planning Guidance Regarding the Use of Contractors to Support Deployed Forces

As we have noted in previous reports and testimonies, DOD has not followed long-standing planning guidance, particularly by not adequately factoring the use and role of contractors into its planning. For example, we noted in 2003 that the operations plan for the war in Iraq contained only limited information on contractor support.²⁵ However, Joint

²⁴ GAO-08-436T.

²⁵ GAO, *Military Operations: Contractors Provide Vital Services to Deployed Forces but Are Not Adequately Addressed in DOD Plans*, GAO-03-695 (Washington, D.C.: June 24, 2003).

Publication 4-0,²⁶ which provides doctrine and guidance for combatant commanders and their components regarding the planning and execution of logistic support of joint operations, stresses the importance of fully integrating into logistics plans and orders the logistics functions performed by contractors along with those performed by military personnel and government civilians.

Additionally, we reported in 2004 that the Army did not follow its planning guidance when deciding to use the Army's Logistics Civil Augmentation Program (LOGCAP) in Iraq.²⁷ This guidance stresses the need to clearly identify requirements and develop a comprehensive statement of work early in the contingency planning process. Because this Army guidance was not followed, the plan to support the troops in Iraq was not comprehensive and was revised seven times in less than 1 year.

Our 2003 report also concluded that essential contractor services had not been identified and backup planning was not being done.²⁸ DOD policy requires DOD and its components to determine which contractor-provided services will be essential during crisis situations, develop and implement plans and procedures to provide a reasonable assurance of the continuation of essential services during crisis situations, and prepare a contingency plan for obtaining the essential service from an alternate source should the contractor be unable to provide it. Without such plans, there is no assurance that the personnel needed to provide the essential services would be available when needed.

Moreover, as we reported in 2003 and 2006,²⁹ senior leaders and military commanders need information about the contractor services they are relying on in order to incorporate contractor support into their planning. For example, senior military commanders in Iraq told us that when they began to develop a base consolidation plan for Iraq, they had no source to draw upon to determine how many contractors were on each installation. Limited visibility can also hinder the ability of commanders to make

²⁶The Joint Chiefs of Staff, *Doctrine for Logistic Support of Joint Operations*, Joint Publication 4-0 (Washington, D.C.: April 2000).

²⁷GAO, *Military Operations: DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, GAO-04-854 (Washington, D.C.: July 19, 2004).

²⁸GAO-03-695.

²⁹GAO-03-695 and GAO-07-145.

informed decisions about base operations support (e.g., food and housing) and force protection for all personnel on an installation.

DOD has taken some action to address this problem. DOD is developing a database of contractors who deploy with U.S. forces. According to senior DOD officials familiar with this database, as of February 2008, the database had about 80,000 records. DOD is working with the State Department to include additional contractors, including private security contractors, in the database. In addition, Joint Contracting Command Iraq/Afghanistan has created the Theater Business Clearance process that reviews and approves all contracts for work in Iraq or Afghanistan. Joint Contracting Command Iraq/Afghanistan officials stated that this has helped military commanders know ahead of time when contractors are coming to work on their bases and ensure sufficient facilities are available for them. According to senior DOD officials, the department is also developing a cadre of contracting planners to ensure that contractor support is included in combatant commanders' operational and contingency planning.

DOD Lacks an Adequate Number of Trained Contract Oversight Personnel

As we noted in several of our previous reports, having the right people with the right skills to oversee contractor performance is crucial to ensuring that DOD receives the best value for the billions of dollars spent each year on contractor-provided services supporting forces deployed to Iraq and elsewhere. However, since 1992, we have designated DOD contract management as a high-risk area, in part due to concerns over the adequacy of the department's acquisition workforce, including contract oversight personnel. While this is a DOD-wide problem, having too few contract oversight personnel presents unique difficulties at deployed locations given the more demanding contracting environment as compared to the United States.

Having an inadequate number of contract oversight personnel has hindered DOD's ability to effectively manage and oversee contractors supporting deployed forces and has had monetary impacts as well. For example, in 2004 we reported that DOD did not always have enough contract oversight personnel in place to manage and oversee its logistics support contracts such as LOGCAP and the Air Force Contract Augmentation Program (AFCAP).³⁰ As a result, the Defense Contract Management Agency was unable to account for \$2 million worth of tools

³⁰ GAO-04-854.

that had been purchased using the AFCAP contract. During our 2006 review, several contract oversight personnel we met with told us DOD does not have adequate personnel at deployed locations.³¹ For example, a contracting officer's representative for a linguistic support contract told us that although he had a battalion's worth of people with a battalion's worth of problems, he lacked the equivalent of a battalion's staff to deal with those problems. Similarly, an official with the LOGCAP Program Office told us that, had adequate staffing been in place early, the Army could have realized substantial savings through more effective reviews of the increasing volume of LOGCAP requirements.

More recently, we reported that the Army did not have adequate staff to oversee an equipment maintenance contract in Kuwait.³² According to Army officials, vacant and reduced inspector and analyst positions meant that surveillance was not being performed sufficiently in some areas and the Army was less able to perform data analyses, identify trends in contractor performance, and improve quality processes. In addition, the 2007 report of the Commission on Army Acquisition and Program Management in Expeditionary Operations stated that the Army lacks the leadership and military and civilian personnel to provide sufficient contracting support to either expeditionary or peacetime missions.³³ As a result, the commission found that the vital task of post-award contract management is rarely being done. As we noted in our 2006 report,³⁴ without adequate contract oversight personnel in place to monitor its many contracts in deployed locations such as Iraq, DOD may not be able to obtain reasonable assurance that contractors are meeting their contract requirements efficiently and effectively.

DOD has taken some actions to address this problem. In February 2007, the Deputy Assistant Secretary of the Army (Policy and Procurement) issued guidance that required, among other things, contracting officers to appoint certified contracting officer's representatives in writing before

³¹GAO-07-145.

³²GAO, *Defense Logistics: The Army Needs to Implement an Effective Management and Oversight Plan for the Equipment Maintenance Contract in Kuwait*, GAO-08-316R (Washington, D.C.: Jan. 22, 2008).

³³Commission on Army Acquisition and Program Management in Expeditionary Operations, *Urgent Reform Required: Army Expeditionary Contracting* (Oct. 31, 2007).

³⁴GAO-07-145.

DOD Is Not Systematically Collecting and Distributing Lessons Learned

contract performance begins, identify properly trained contracting officer's representatives for active service contracts, and ensure that a government quality assurance surveillance plan is prepared and implemented for service contracts exceeding \$2,500. Joint Contracting Command Iraq/Afghanistan officials stated they are in the process of adding 39 personnel to provide additional contractor oversight. Similarly, the Defense Contract Management Agency has deployed an additional 100 people and plans to deploy approximately 150 more people to provide contract oversight and management to both ongoing and future contracts in Iraq. The agency is providing oversight for DOD's private security contracts as well as other theaterwide contracts. Additionally, senior DOD officials stated that the department has created a task force to address the recommendations of the October 2007 report by the Commission on Army Acquisition and Program Management in Expeditionary Operations.

Although DOD and its components have used contractors to support deployed forces in several prior military operations, DOD does not systematically ensure that institutional knowledge on the use of contractors to support deployed forces, including lessons learned and best practices, is shared with military personnel at deployed locations. We previously reported that DOD could benefit from systematically collecting and sharing its institutional knowledge to help ensure that it is factored into planning, work processes, and other activities.³⁵ Although DOD has policy requiring the collection and distribution of lessons learned to the maximum extent possible, we found in our previous work that no procedures were in place to ensure that lessons learned are collected and shared.

Moreover, although the Army regulation which establishes policies, responsibilities, and procedures for the implementation of the LOGCAP program makes customers that receive services under the LOGCAP contract responsible for collecting lessons learned, we have repeatedly found that DOD is not systematically collecting and sharing lessons learned on the use of contractors to support to deployed forces. Despite years of experience using contractors to support forces deployed to the Balkans, Southwest Asia, Iraq, and Afghanistan, DOD has made few efforts

³⁵GAO, *Information Technology: DOD Needs to Leverage Lessons Learned from Its Outsourcing Projects*, GAO-03-371 (Washington, D.C.: Apr. 25, 2003); and *Military Training: Potential to Use Lessons Learned to Avoid Past Mistakes Is Largely Untapped*, GAO/NSIAD-95-152 (Washington, D.C.: Aug. 9, 1995).

to leverage this institutional knowledge. As a result, many of the problems we identified in earlier operations have recurred in current operations.

During the course of our 2006 work, we found no organization within DOD or its components responsible for developing procedures to capture lessons learned on the use of contractor support at deployed locations.³⁶ We noted that when lessons learned are not collected and shared, DOD and its components run the risk of repeating past mistakes and being unable to build on the efficiencies and effectiveness others have developed during past operations that involved contractor support. We also found a failure to share best practices and lessons learned between units as one redeploys and the other deploys to replace it. As a result, new units essentially start at ground zero, having to resolve a number of difficulties until they understand contractor roles and responsibilities.

DOD Does Not Comprehensively Train Military Commanders and Contract Oversight Personnel

DOD does not routinely incorporate information about contractor support for deployed forces in its pre-deployment training of military personnel, despite the long-standing recognition of the need to provide such information. We have discussed the need for better pre-deployment training of military commanders and contract oversight personnel since the mid-1990s and have made several recommendations aimed at improving such training. Moreover, according to DOD policy, personnel should receive timely and effective training to ensure they have the knowledge and other tools necessary to accomplish their missions. Nevertheless, we continue to find little evidence that improvements have been made in terms of how DOD and its components train military commanders and contract oversight personnel on the use of contractors to support deployed forces prior to their deployment. Without properly trained personnel, DOD will continue to face risks of fraud, waste, and abuse.

Limited or no pre-deployment training on the use of contractor support can cause a variety of problems for military commanders in a deployed location. As we reported in 2006, with limited or no pre-deployment training on the extent of contractor support to deployed forces, military commanders may not be able to adequately plan for the use of those contractors.³⁷ Similarly, in its 2007 report, the Commission on Army Acquisition and Program Management in Expeditionary Operations

³⁶ GAO-07-145.

³⁷ GAO-07-145.

concluded that the Army needs to educate and train commanders on the important operational role of contracting. Several military commanders we met with in 2006 said their pre-deployment training did not provide them with sufficient information on the extent of contractor support that they would be relying on in Iraq and were therefore surprised by the substantial number of personnel they had to allocate to provide on-base escorts, convoy security, and other force protection support to contractors. In addition, limited or no pre-deployment training for military commanders can result in confusion over their roles and responsibilities in managing and overseeing contractors. For example, we found some instances where a lack of training raised concerns over the potential for military commanders to direct contractors to perform work outside the scope of the contract, something commanders lack the authority to do. This can cause the government to incur additional charges because modifications would need to be made to the contract.

We also found that contract oversight personnel such as contracting officer's representatives received little or no pre-deployment training on their roles and responsibilities in monitoring contractor performance. Many of the contracting officer's representatives we spoke with in 2003 and 2006 said that training before they assumed these positions would have better prepared them to effectively oversee contractor performance. In most cases, deploying individuals were not informed that they would be performing contracting officer's representative duties until after they had deployed, which hindered the ability of those individuals to effectively manage and oversee contractors. For example, officials from a corps support group in Iraq told us that until they were able to get a properly trained contracting officer's representative in place, they experienced numerous problems regarding the quality of food service provided by LOGCAP. In addition, the 2007 report of the Commission on Army Acquisition and Program Management in Expeditionary Operations discussed the need to train contracting officer's representatives and warned that the lack of training could lead to fraud, waste, and abuse.

DOD has taken some steps to address this problem. In DOD's response to our 2006 report, the Director of Defense Procurement and Acquisition Policy stated that the Army is making changes to its logistics training programs that would incorporate contracting officer's representatives training into its basic and advanced training for its ordnance, transportation, and quartermaster corps.³⁸ In addition, the Defense

³⁸GAO-07-145.

Acquisition University has updated its contingency contracting course to include a lesson on contractors accompanying the force. Further, the Defense Contract Management Agency is adding personnel to assist in the training and managing of contracting officer's representatives.

Increased Reliance on Contractors for Weapon System Support Raises Questions about Core Functions and Cost Effectiveness

DOD has moved over the years toward greater use of the private sector to perform maintenance and other logistics support for weapon systems. Factors influencing this increased reliance on contractors include changes in DOD's guidance and plans that emphasized the privatization of logistics functions, a lack of technical data and modernized facilities needed to perform maintenance on new systems, and reductions in maintenance workers at government-owned depots. The move toward greater reliance on contractors has raised questions regarding how much depot maintenance and other logistics work needs to be performed in-house and about the cost-effectiveness of outsourcing DOD logistics.

DOD Has Increasingly Relied on Contractors for Maintenance and Other Logistic Support of Weapon Systems

DOD has increasingly relied on contractors for maintenance and other logistic support of weapon systems. For example, funding for private sector contractors to perform depot maintenance³⁹ increased in then-year dollars from about \$4.0 billion in fiscal year 1987 to about \$13.8 billion in fiscal year 2007, or 246 percent. In contrast, during this same time period, the amount of funding for depot maintenance performed at government (public) depots increased from about \$8.7 billion to about \$16.1 billion, or 85 percent. This trend toward greater reliance on the private sector for depot maintenance was most evident during the period from fiscal years 1987 to 2000, when the amount of funding for public depot maintenance largely stayed flat and private sector funding increased by 89 percent. Since 2001, military operations in support of the Global War on Terrorism have resulted in large funding increases for maintenance performed by both public and private sector activities.

One potential future limitation to continued contracting out of depot maintenance activities is the statutory limit on the amount of funding for depot maintenance work that can be performed by private sector contractors. Under 10 U.S.C. 2466(a), not more than 50 percent of funds made available in a fiscal year to a military department or defense agency

³⁹Depot maintenance is the highest level of maintenance within DOD and generally refers to major maintenance and repairs, such as overhauling, upgrading, or rebuilding parts, assemblies, or subassemblies. Depot maintenance has long been provided by a mix of government-owned depots and private contractors.

for depot-level maintenance and repair may be used to contract for the performance by non-government personnel of such workload for the military departments and defense agencies. As the contractors' share has increased over time, managing within this limitation has become more challenging—particularly for the Air Force and, to a lesser extent, the Army. Another potential limitation to contracting out is a requirement that DOD maintain a core logistics capability within government facilities.⁴⁰ However, as I will discuss, our work has revealed problems in DOD's implementation of this requirement.

DOD also has experienced significant growth in the overall use of contractors for long-term logistics support of weapon systems.⁴¹ While the department does not collect and aggregate cost data specifically on these support arrangements, available data illustrate this growth. For example, Air Force data show an increase in funding for these support arrangements from \$910 million in fiscal year 1996 to a projected \$4.1 billion in fiscal year 2013. Many DOD acquisition program offices have been adopting long-term support strategies for sustaining new and modified systems that rely on contractors. Our ongoing review of core logistics capability indicates that performance-based logistics or some other type of partnership is a frequently used weapon system sustainment approach.

Multiple Factors Have Influenced DOD's Increased Reliance on Contracting

The move toward increased use of contractors to perform maintenance and other logistics support for weapon systems has been influenced by multiple factors. A significant factor has been the shift in DOD's guidance and plans that placed greater emphasis on privatizing logistics functions. In 1996, for example, DOD issued a report, *Plan for Increasing Depot Maintenance Privatization and Outsourcing*, which provided a framework for substantially increasing reliance on the private sector for depot maintenance. In addition, both the 1995 report by the Commission

⁴⁰Section 2464 of Title 10 of the U.S. Code provides that it is essential for the national defense that DOD maintain a core logistics capability that is government-owned and government-operated to ensure the existence of a ready and controlled source of technical competence and resources necessary to ensure a timely and effective military response to mobilizations, national defense emergencies, and contingencies.

⁴¹Contractor logistics support arrangements may involve the contractor performing maintenance, assuming responsibility for life-cycle management of the system, and performing sustainment activities, including parts management. These arrangements may take various forms, including performance-based logistics.

on Roles and Missions⁴² and a 1996 report by a Defense Science Board⁴³ task force recommended that DOD outsource almost all depot maintenance and other logistics activities. Both study teams assumed large cost savings would result from increased privatization. Today, DOD guidance provides that performance-based logistics is now DOD's preferred approach for providing long-term total system support for weapon systems. DOD describes performance-based logistics as the process of (1) identifying a level of performance required by the warfighter and (2) negotiating a performance-based arrangement to provide long-term total system support for a weapon system at a fixed level of annual funding.

Another factor in the move toward greater reliance on contractors has been the lack of technical data and other elements of support, such as modernized facilities, required to establish a maintenance capability for new systems. Technical data for weapon systems include drawings, specifications, standards, and other details necessary to ensure the adequacy of item performance, as well as manuals that contain instructions for installation, operation, maintenance, and other actions needed to support weapon systems. As a result of not having acquired technical data rights from the equipment manufacturers, the military services in some instances have had difficulty establishing a maintenance capability at government depots. For example, the Air Force identified a need to develop a core capability to perform maintenance on the C-17 aircraft at government depots, but lacked the requisite technical data rights. Consequently, the Air Force has sought to form partnerships with C-17 subvendors to develop a depot maintenance capability, but these efforts have had mixed results. Based on our ongoing review of DOD core capability, we found that the Air Force continues to have challenges establishing core capability for C-17 commodities because of technical data issues.

A third factor influencing DOD's increasing reliance on contractor support has been reductions in government depot maintenance personnel available

⁴²Commission on Roles and Missions, *Directions for Defense* (May 24, 1995).

⁴³Defense Science Board, *Report of the Defense Science Board Task Force on Outsourcing and Privatization* (August 1996). Also see Defense Science Board, *Report on the Defense Science Board 1996 Summer Study on Achieving an Innovative Support Structure for 21st Century Military Superiority: Higher Performance at Lower Costs* (November 1996).

to perform the work. Personnel downsizing has greatly reduced the number of depot maintenance workers and has limited the amount of work that could be performed in the depots. Since 1987 the number of depot-level maintenance personnel was reduced by 56 percent from a high of 163,000 in 1987 to about 72,000 in 2002, after which the depots began to see some personnel increases to support the Global War on Terrorism. In comparison, in the 13 years between 1989 and 2002, DOD's total civilian workforce had a 38 percent reduction. While some downsizing was essential, given reductions in depot maintenance workloads over the same period, mandated reductions in the number of personnel were taken even though the depots may have had funded workload to support an increased number of personnel. For example, in a review of Army depot personnel reductions in 1998, we found that efforts to implement the reductions at the Corpus Christi Army Depot were poorly managed and more direct labor employees were reduced than intended—adversely affecting the depot's productivity. We found that while Army regulations on manpower management provide that staffing levels are to be based on the workloads performed, the Army's reduced staffing plan was developed in response to affordability concerns and a desire to lower the depot's rates and did not support the depot's funded workload requirement.⁴⁴

Uncertainties Exist About Maintaining Core Capability for Depot Maintenance and Other Logistics Work

Because DOD has not clearly and comprehensively identified what depot maintenance and other logistics activities the department should be performing itself, it is unclear how much of the work that has been contracted out may be work that should be done in-house by government personnel. Additionally, DOD has not identified core logistics capability requirements for other logistics functions, such as supply chain management and engineering.

With regard to depot maintenance, we previously reported that DOD lacks assurance that core logistics capabilities were being maintained as needed to ensure timely and effective response to national defense emergencies and contingencies, as required by 10 U.S.C. 2464, noting that several factors precluded this assurance.⁴⁵ First, DOD's existing policy, which establishes a process for identifying core maintenance capability, was not comprehensive in that it did not provide for a forward look at new weapon

⁴⁴GAO, *Army Industrial Facilities: Workforce Requirements and Related Issues Affecting Depots and Arsenals*, GAO/NSIAD-99-31 (Washington, D.C.: Nov. 30, 1998).

⁴⁵GAO, *Defense Logistics: Actions Needed to Overcome Capability Gaps in the Public Depot System*, GAO-02-105 (Washington, D.C.: Oct. 12, 2001).

systems and associated future maintenance capability requirements. Second, the various procedures and practices being used by the services to implement the existing policy were also affecting the establishment of core capability. For example, the Air Force reduced its core requirement as a result of its consideration of maintenance work performed in the private sector, even though core work is supposed to be performed in military facilities and by government personnel. In addition, we have noted that DOD has had other limitations, including a lack of technical data rights and a lack of sufficient investment in facilities, equipment, and human capital to ensure the long-term viability of the military depots.

To improve its process for identifying core maintenance capability requirements, in January 2007 DOD issued an instruction on how to identify required core capabilities for depot maintenance, which generally mirrored previous guidance.⁴⁶ Also, in March 2007 DOD issued its depot maintenance strategy, which delineated the actions DOD is undertaking to identify and sustain core maintenance capability. We have an ongoing engagement to assess the effectiveness of the current policy and procedures as well as the services' implementation.

To address issues inhibiting the establishment of core capability, Congress has taken recent actions to address problems with technical data and depot facilities. We previously recommended that DOD improve its acquisition policies for assessing technical data needs to support weapon systems.⁴⁷ The John Warner National Defense Authorization Act for Fiscal Year 2007 (2007 Defense Authorization Act) mandated that DOD require program managers for major weapon systems to assess long-term technical data needs for weapon systems and to establish corresponding acquisition strategies that provide for technical data rights needed to sustain such systems over their life cycle.⁴⁸ DOD subsequently issued a

⁴⁶DOD Instruction 4151.20 (Jan. 5, 2007) states that pursuant to DOD policy, DOD components must apply the core capability requirements determination process to identify required core capabilities and the workloads necessary to sustain effectively the core capabilities.

⁴⁷GAO, *Weapons Acquisition: DOD Should Strengthen Policies for Assessing Technical Data Needs to Support Weapon Systems*, GAO-06-839 (Washington, D.C.: July 14, 2006).

⁴⁸Pub. L. No. 109-364, § 802 (2006).

new policy in July 2007 to implement this requirement.⁴⁹ Potential benefits from this action are long term because of the time frames required for developing and acquiring weapon systems, and it is uncertain what actions may have been taken by program offices as a result of this policy change or the extent in which any actions taken could improve the availability of required data in the future. To address inadequacies in the military's investments in its maintenance depots, the 2007 Defense Authorization Act required military departments to invest each fiscal year in the capital budgets of certain depots a total amount equal to at least 6 percent of the average total combined workload funded at all of the depots over the preceding 3 fiscal years.⁵⁰ As a part of an ongoing engagement, we are reviewing the military departments' implementation of this mandate.

We have also reported that DOD has not established policies or processes for determining core requirements for non-maintenance logistics capabilities for activities such as supply support, engineering, and transportation.⁵¹ Without identifying those core logistics activities that need to be retained in-house, the services may not be retaining critical capabilities as they proceed with contracting initiatives. For example, if DOD implements performance-based logistics—its preferred weapon system support arrangement—at the platform level, this can result in contracting out the program integration function, a core process which the private sector firms we interviewed during a 2004 review considered integral to their successful business operations. Another potential adverse effect of awarding a performance-based contract at the platform level is the loss of management control and expertise over the system that private sector companies told us were essential to retain in-house. In an earlier engagement, Army, Navy, and Air Force operational command officials told us that among their concerns with various types of long-term contractor logistics support arrangements were (1) retaining the ability to maintain and develop critical technical skills and knowledge, (2) limiting operational authority, and (3) reducing the program office's ability to

⁴⁹A July 19, 2007 memorandum from the Under Secretary of Defense (Acquisition, Technology, and Logistics) for the service acquisition executives required that program managers assess the long-term technical data needs of their systems and reflect that assessment in a data management strategy which must be integrated with other life-cycle sustainment planning, assess certain data requirements, and address the merits of a priced contract option for the future delivery of technical data.

⁵⁰Pub. L. No. 109-364, § 332 (2006).

⁵¹GAO-02-105.

Uncertainties Exist About Projected Cost Effectiveness of Outsourcing Initiatives for DOD Logistics

perform essential management functions. Thus, without well-defined policy and procedures for identifying core requirements for critical logistics areas, the department may not be in a position to ensure that it will have the needed capabilities for the logistics system to support essential military weapons and equipment in an emergency.

Although DOD justified its logistics outsourcing initiatives based on the assumption that there would be significant cost savings, it is uncertain to what extent cost savings have occurred or will occur. Overall funding for depot maintenance costs and other logistics support costs are increasing significantly, both for work that is performed in military depots and by contractors. However, sufficient data are not available to determine whether increased contracting has caused DOD's costs to be higher than they would have been had the contracted activities been performed by DOD civilians. As noted earlier, assumptions about savings were a key part of DOD's shift in policy toward the performance of defense logistics by the private sector.

While the 1995 Commission on Roles and Missions projected savings of 20 percent from outsourcing, we questioned this group's savings assumptions, noting that its data did not support its depot privatization savings assumptions.⁵² These assumptions were based on reported savings from public-private competitions for commercial activities under Office of Management and Budget Circular A-76. The commercial activities were generally dissimilar to depot maintenance activities because they involved relatively simple, routine, and repetitive tasks that did not generally require large capital investments or highly skilled and trained personnel. Public activities were allowed to compete for these workloads and won about half the competitions. Additionally, many private sector firms generally made offers for this work due to the highly competitive nature of the private sector market, and estimated savings were generally greater in situations where there were larger numbers of private sector offerors. In contrast, most depot maintenance work is awarded without competition to the original equipment manufacturer. We noted that in the absence of a highly competitive market, privatizing unique, highly diverse, and complex depot maintenance workloads that require large capital investments, extensive technical data, and highly skilled and trained personnel would not likely achieve expected savings and could increase the costs of depot

⁵²GAO, *Defense Depot Maintenance: Commission on Roles and Mission's Privatization Assumptions Are Questionable*, NSIAD-96-161 (Washington, D.C.: July 15, 1996).

maintenance operations. We also questioned the Defense Science Board's projections of \$30 billion in annual savings from privatizing almost all logistics support activities.

We have also reported that whereas DOD expected to achieve large savings from its contracting out of more of its depot-level maintenance work, depot maintenance contracting represented a challenge to relying on commercial market forces. Whereas DOD was attempting to rely on competitive market forces, about 91 percent of the depot maintenance contracts we reviewed were awarded noncompetitively. We also noted that difficulties in precisely defining requirements also affected DOD's efforts to rely on competitive market forces. Further, we cautioned that DOD would need to increase the use of competitively awarded depot maintenance contracts and to address how best to assure product quality and reasonable prices when competitive market forces were not present.

We have also raised questions about cost savings from DOD's increased use of performance-based logistics. Although DOD guidance recommends that program offices perform a business case analysis before adopting a performance based logistics approach to support weapon system, our reviews of the implementation of this approach show these analyses are not often done and DOD program offices could not demonstrate that they had achieved cost savings.⁵³ Of the 15 programs we reviewed, 11 program offices had developed a business case analysis—prior to entering into a performance-based logistics arrangement—which projected achieving significant cost savings. Only one of these programs offices had updated its business case analysis with actual cost data as recommended by DOD guidance. The one program office that did update its business case analysis determined that the contract did not result in the expected cost savings and subsequently restructured the program. Program office officials acknowledged limitations in their own information systems in providing reliable data to closely monitor contractor costs. While existing systems are capable of collecting some cost information, they are not capturing sufficiently detailed cost information for monitoring the performance-based logistics contracts.

⁵³ GAO, *Defense Management: DOD Needs to Demonstrate That Performance-Based Logistics Contracts Are Achieving Expected Benefits*, GAO-05-966 (Washington, D.C.: Sept. 9, 2005).

Our 2005 report on DOD's implementation of performance-based logistics included a recommendation on the validation of business case decisions to demonstrate whether they are resulting in reduced costs and increased performance. Also, given the stated limitations in cost information, we recommended that program offices be required to improve their monitoring of performance-based logistics arrangements by verifying the reliability of contractor cost and performance data. Although DOD concurred with our recommendations, we are currently evaluating the corrective actions taken. In addition, DOD currently does not require detailed reporting of contractor logistics support costs, including for performance based arrangements.

Concluding Observations

In closing, I believe that we must engage in a fundamental reexamination of when and under what circumstances we should use contractors versus civil servants or military personnel. This is a major and growing concern that needs immediate attention. In general, I believe there is a need to focus greater attention on what type of functions and activities should be contracted out and which ones should not. Inherently governmental functions are required to be performed by government personnel, not private contractors. Government officials, in making decisions about whether to use contractors for services closely supporting inherently governmental functions, should assess risk and consider the need for enhanced management and oversight controls. Once the decision to contract has been made, we must address challenges we have observed in ensuring proper oversight of these arrangements—especially considering the evolving and enlarging role of contractors in federal acquisitions. These concerns, identified in our work at several federal agencies including DOD, are more complex to address and may take on greater significance in contingency or military operations. As we have witnessed with contractors in Iraq, a specific decision made by a contractor can impact U.S. strategic and operational objectives in ways that were not considered in making the initial contracting decision.

To address these concerns with regard to contractor support to deployed forces, we believe that in the immediate future, DOD's leadership needs to ensure implementation of and compliance with relevant existing guidance. In the longer term, we believe a broader examination of the use and role of contractors to support deployed forces is in order. As I stated in April 2007, it may be appropriate to ask if DOD has become too reliant on

contractors to provide essential services.⁵⁴ What is needed is a comprehensive, forward-looking, and integrated review of contractor support to deployed forces that provides the proper balance between contractor support and the core capabilities of military forces over the next several years. In a November 2007 briefing on DOD transformation, I called on DOD to employ a total force management approach to planning and execution (e.g. military, civilian, and contractors).⁵⁵ Many of the problems we have identified regarding the management and oversight of contractor support to deployed forces stem from DOD's reluctance to plan for contractors as an integral part of the total force. One way DOD could begin to address this issue is by incorporating the use and role of contractors into its readiness reporting. DOD regularly reports on the readiness status, capabilities assessments, and other reviews of the status and capabilities of its forces. Given the reality that DOD is dependent on contractors for much of its support in deployed locations, the department should include information on the specific missions contractors will be asked to perform, the operational impacts associated with the use of contractors, and the personnel necessary to effectively oversee and manage those contractors.

Mr. Chairman, this concludes my prepared statement. I would be happy to respond to any questions you or other Members of the Subcommittee may have at this time.

⁵⁴ GAO-07-525T.

⁵⁵ GAO, *Defense Transformation: Challenges and Opportunities*, GAO-08-323CG (Washington, D.C.: Nov. 29, 2007).

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Appendix I: Systemic Acquisition Challenges at the Department of Defense

1. Service budgets are allocated largely according to top line historical percentages rather than Defense-wide strategic assessments and current and likely resource limitations.
2. Capabilities and requirements are based primarily on individual service wants versus collective Defense needs (i.e., based on current and expected future threats) that are both affordable and sustainable over time.
3. Defense consistently overpromises and underdelivers in connection with major weapons, information, and other systems (i.e., capabilities, costs, quantities, and schedule).
4. Defense often employs a “plug and pray approach” when costs escalate (i.e., divide total funding dollars by cost per copy, plug in the number that can be purchased, then pray that Congress will provide more funding to buy more quantities).
5. Congress sometimes forces the department to buy items (e.g., weapon systems) and provide services (e.g., additional health care for non-active beneficiaries, such as active duty members’ dependents and military retirees and their dependents) that the department does not want and we cannot afford.
6. DOD tries to develop high-risk technologies after programs start instead of setting up funding, organizations, and processes to conduct high-risk technology development activities in low-cost environments, (i.e., technology development is not separated from product development). Program decisions to move into design and production are made without adequate standards or knowledge.
7. Program requirements are often set at unrealistic levels, then changed frequently as recognition sets in that they cannot be achieved. As a result, too much time passes, threats may change, or members of the user and acquisition communities may simply change their mind. The resulting program instability causes cost escalation, schedule delays, smaller quantities and reduced contractor accountability.
8. Contracts, especially service contracts, often do not have definitive or realistic requirements at the outset in order to control costs and facilitate accountability.
9. Contracts typically do not accurately reflect the complexity of projects or appropriately allocate risk between the contractors and the taxpayers (e.g., cost plus, cancellation charges).

10. Key program staff rotate too frequently, thus promoting myopia and reducing accountability (i.e., tours based on time versus key milestones). Additionally, the revolving door between industry and the department presents potential conflicts of interest.
11. The acquisition workforce faces serious challenges (e.g., size, skills, knowledge, and succession planning).
12. Incentive and award fees are often paid based on contractor attitudes and efforts versus positive results (i.e., cost, quality, and schedule).
13. Inadequate oversight is being conducted by both the department and Congress, which results in little to no accountability for recurring and systemic problems.
14. Some individual program and funding decisions made within the department and by Congress serve to undercut sound policies.
15. Lack of a professional, term-based Chief Management Officer at the department serves to slow progress on defense transformation and reduce the chance of success in the acquisitions/contracting and other key business areas.

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